

Docket No. 7702

Order entered: 2/3/2011

On December 28, 2010, the Vermont Department of Public Service ("Department") filed its Determination Under 30 V.S.A. § 202(f) to the Board, finding that the issuance of long-term debt as set forth in the amended Petition is consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f).

On January 31, 2010, the Department filed its recommendation concerning the Petition informing the Board that it believes that the proposed refinancing of long-term debt as set forth in the Petition is consistent with the general good of the State, and recommends approval of the amended Petition without a hearing.

I have reviewed the Petition, the supporting testimony, and accompanying documents. I conclude that approval of PSNH's proposed refinancing of long-term debt pursuant to 30 V.S.A. § 108 is appropriate and that such approval may occur without hearing. Based upon the evidence of record, testimony, and exhibits presented in this docket, and the Department's filings of December 28, 2010, and January 31, 2011, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS

1. PSNH is a public utility corporation duly organized and existing under the laws of the State of New Hampshire, registered to do business in the State of Vermont, and engaged in the generation, transmission and sale of electric energy within the State of New Hampshire. PSNH owns and operates certain property in Vermont consisting of a 1.1 MW hydroelectric generating plant in Canaan, Vermont; a 34.5 kV transmission line which connects the Canaan plant to the New Hampshire electric system; nine miles of 115 kV transmission line that pass through Waterford and Concord, Vermont, but with no interconnection within Vermont; and a small amount of property in Wilmington, Vermont. Petition at 1 and App. A.

2. The Company proposes to: (i) refinance the \$75,000,000 1992 Series D Pollution Control Revenue Bonds and the \$44,800,000 1993 Series E Pollution Control Revenue Bonds; (ii) refinance the \$89,250,000 Series A Pollution Control Revenue Bonds; (iii) issue first mortgage bonds and mortgage property in connection with the proposed refinancing; and (iv) potentially execute interest-rate transactions associated with the proposed refinancing. Petition at 1-2.

Series D and Series E Bonds

3. PSNH currently has outstanding \$75,000,000 of tax-exempt Series D PCRB's bearing a rate of interest of 6.00% and maturing on May 21, 2021 ("Series D Bonds"). The Series D Bonds are evidenced and secured by Series F First Mortgage Bonds in an equal principal amount

and bearing the same rate of interest. The Series D Bonds may be redeemed prior to maturity at specified redemption rates, and may be currently redeemed at 101% of principal. *Id.*; Weber pf. at 5-6.

4. PSNH currently has outstanding \$44,800,000 of tax-exempt Series E PCRB's bearing a rate of interest of 6.00% and maturing on May 1, 2021 ("Series E Bonds"). The Series E Bonds are evidenced and secured by Series G First Mortgage Bonds in an equal principal amount and bearing the same rate of interest. The Series E Bonds may be redeemed prior to maturity at specified redemption rates, and may be currently redeemed at 101% of principal. *Id.*

5. The Company proposes to issue and sell, in one or more series, up to \$119,800,00 in new tax-exempt bonds, or up to \$123,000,000 in new taxable bonds, (collectively the "New Bonds") in the institutional debt market at any time through December 31, 2012. The New Bonds will have a maturity of up to forty years for a taxable issuance, or for the remaining term of May 1, 2021, if the issuance is tax-exempt.¹ The proceeds from the issuance of the New Bonds will be used to refinance the Series D and Series E Bonds (\$119,800,000), and in the event that the issuance consists of new taxable debt (\$123,000,000), the excess proceeds will be used to pay any required call premiums and related issuance expenses. PSNH also seeks authority to equitably spread any unamortized previously-incurred issuance fees and call premiums over the term of the New Bonds. The Company will only refinance the PCRB's if a positive net present value savings can be achieved over the remaining term of the Series D and Series E Bonds. Petition at 2-3; Weber pf. at 6-7.

6. PSNH seeks the flexibility to issue the New Bonds as taxable debt so it has the ability to choose which market may be more economic at the time of issuance. Based on current market conditions and discussions with its investment bankers, PSNH concludes that it is currently more economic to issue taxable debt for the proposed refinancing than to issue tax-exempt debt. Interest on the PCRB's is subject to the Alternative Minimum Tax and investors currently have a preference for longer maturity tax-exempt bonds resulting in debt pricing that exceeds the pricing

1. Since 1986, the Internal Revenue Code does not permit pollution control facilities to be financed with tax-exempt debt; however, transactions entered into before 1986 are grandfathered and can be refinanced but only through the existing maturity date of the original financing and only at the current outstanding principal balance. Weber pf. at 11.

for taxable debt. Therefore, the Company seeks to have the flexibility to issue the New Bonds as either taxable or tax-exempt debt depending on which market provides the most favorable pricing at the time of issuance. The current indicative tax-exempt and taxable pricing for the New Bonds is as follows:²

Series D & E	4.75% (10yr/Tax-exempt)	3.65% (10yr/Taxable)
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A comparison of the expected total issuance fees for the refinancing is as follows:

Series D	\$1,400,000 (Tax-exempt)	\$741,000 (Taxable)
Series E	\$ 926,570 (Tax-exempt)	\$530,620 (Taxable)

Weber pf. at 7-9.

7. In the event the New Bonds are issued as taxable bonds, they would be issued in the form of new First Mortgage Bonds pursuant to the terms and conditions of PSNH's First Mortgage Indenture as amended from time to time. The New Bonds may be sold to institutional investors. The number, series, maturity, exact financing structure, term, terms and conditions, redemption provisions, and coupon rate of the New Bonds will be determined at the time of issuance depending on market conditions. The maturity date for a taxable issuance could extend beyond May 1, 2021. Weber pf. at 10; Petition appendix A, attachments 7 and 7A.

8. If the New Bonds are issued as tax-exempt bonds, they would be issued and sold by the New Hampshire Business Finance Authority ("BFA") subject to BFA, Governor, and Executive Council approval. The New Bonds would be issued by the BFA under one or more loan and trust agreements entered into by the BFA, PSNH, and the trustee. All payments of principal, interest, and premium if any, would be the limited obligations of the BFA and would be payable from payments received from PSNH. The New Bonds would not be the general obligations of the State of New Hampshire, and neither the general credit nor the taxing authority of the State or any subdivision thereof, including the BFA, would secure the payment of any obligation under this type of tax-exempt issuance. Weber pf. at 12.

9. Issuing the New Bonds as tax-exempt debt through the BFA would involve the following transactions: (i) the BFA's issue of the tax-exempt bonds, (ii) the BFA's loan of the bond proceeds to PSNH for the purpose of redeeming the Series D and Series E Bonds, (iii)

2. Source: Morgan Stanley and Barclays Capital as of 10/28/2010.

PSNH's repayment of the loan to BFA through payment to the trustee of all amounts due with respect to the New Bonds, and (iv) the BFA's assignment to the trustee in trust for the benefit and security of the bondholders all of the BFA's rights, including repayment of the loan to be received from the Company. Weber pf. at 12.

10. In a tax-exempt refinancing, new first mortgage bonds, identical or substantially similar in principal, interest, and premium (if any), the payment terms for the New Bonds would be issued by PSNH in one or more series under its First Mortgage Indenture to evidence and secure certain of the Company's repayment obligations related to the New Bonds. Petition at 4; Weber pf. at 19.

11. In the event of a taxable bond issuance, PSNH seeks the flexibility to issue the New Bonds in principal amounts that are greater than the principal amounts currently due under the Series D and Series E Bonds in order to pay expected issuance costs and any call premiums associated with those bonds. Under this scenario, the Company estimates issuing an aggregate principal amount of up to \$123,000,000. However, if the New Bonds are issued in the tax-exempt market, the aggregate principal amount would total \$119,800,000 and PSNH would pay the issuance expenses and call premiums from its general funds. Weber pf. at 13.

New Series A Bonds

12. PSNH has outstanding \$89,250,000 of Tax-Exempt Series A PCRB's, currently in auction-rate mode, maturing on May 1, 2021 ("Series A Bonds"). Series I First Mortgage Bonds in an equal principal amount and bearing the same rate of interest, evidence and secure the Company's obligation to repay the Series A Bonds. Because these are auction-rate securities, the interest rate for the Series A Bonds is determined through an auction process administered by The Bank of New York Mellon every 35 days. As a result, the interest rate for the bonds fluctuates with market demand and is tied to the Non-Financial Commercial Paper rate. As of November 9, 2010, the interest rate on the Series A Bonds was favorable at 0.40%. However, PSNH forecasts that the interest rate for the Series A Bonds will significantly increase over the short term as general economic conditions improve, reaching 6.0% by the fourth quarter of 2012. Consequently, PSNH proposes to remarket or refinance the Series A Bonds if it is anticipated that PSNH could save interest costs over the remaining term of the bonds. Weber pf. at 14-15.

13. In remarketing the Series A Bonds, the bonds would be converted from current auction-rate mode to flexible mode, daily mode, weekly mode, term-rate or fixed-rate mode, pursuant to the terms and conditions of the existing Series A Loan and Trust Agreement, and dependent upon economic conditions existing at the time. If PSNH were to exercise this option, the Series A Bonds would be subject to mandatory tender at par in connection with the change in mode, and would be remarketed in the new mode and available for sale to existing and new buyers. At the time of the remarketing, most terms and conditions of the Series A Bonds, including tax status, would remain unchanged. Should it be more economic for PSNH to issue a new series of bonds in the taxable bond market, the Company would undertake a refinancing whereby the Series A Bonds would be repaid at par at the end of the auction-rate period and a new series of bonds would be issued. Weber pf. at 16.

14. Similar to the current situation involving the Series D Bonds and the Series E Bonds described above, the Company has been advised by its investment bankers that it is currently more economic to refinance the Series A Bonds with taxable debt. Therefore, PSNH requests the flexibility to refinance the Series A Bonds through a taxable debt issuance. The current indicative tax-exempt and taxable pricing for the Series A Bonds is as follows:³

Series A	4.75% (10yr/Tax-exempt)	3.65% (10yr/Taxable)
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A comparison of the expected total issuance fees for the refinance is as follows:

Series A	\$939,388 (Tax-exempt)	\$839,325 (Taxable)
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Weber pf. at 16-17.

15. In the event that the Series A Bonds are remarketed and refinanced through the issuance of taxable bonds, the new bonds would be issued as first mortgage bonds pursuant to PSNH's First Mortgage Indenture. The number, series, maturities, financing structure, terms and conditions, amount, and coupon rate of the new bonds will be determined at the time of issuance depending on market conditions. The maturity date of the new Series A bonds could be extended beyond the current May 1, 2021, maturity date of the Series A Bonds, for a term of up to forty years. If the new taxable bonds are issued, PSNH requests the flexibility to increase the principal amount currently due under the Series A Bonds in order to incorporate related issuance costs.

3. Source: Morgan Stanley and Barclays Capital as of 10/28/2010.

PSNH estimates that the aggregate principal amount under this scenario would total \$91,000,000. Weber pf. at 18-19.

16. PSNH also proposes to have the option of entering into an interest-rate swap or lock to manage interest-rate risk associated with the proposed refinancing of the Series D, Series E, and Series A Bonds if issued as taxable debt. Currently, there are no instruments available to hedge interest-rate risk in the tax-exempt municipal bond market. In the event of a taxable issuance, there are several instruments to choose from and the Company is currently considering either a Treasury Lock⁴ or a Forward-starting Swap.⁵ By utilizing one of these hedging instruments, PSNH would be able to manage the risk of rising interest rates with respect to the proposed debt issuances. The decision whether or not to implement this strategy would depend on actual market conditions at the time of issuance.⁶ There are no up-front fees for entering into these interest-rate transactions; however, a transaction fee, which depends upon the length of the lock-in period, is added to the locked rate. For example, the fee to lock in the 10-year Treasury rate or enter into a Forward-starting Swap for three months has historically ranged from 0.05% to 0.20% of the principal amount, and is currently around 0.15%. There are no additional costs or transaction fees that the Company might incur. Weber pf. at 22-24.

III. DISCUSSION & CONCLUSION

Based upon the findings and the evidence in the record, I find that PSNH's request to: (i) refinance the Series D and Series E Bonds up to \$119,800,000 if issued as tax-exempt debt, or \$123,000,000 if issued as taxable debt; (ii) issue up to \$91,000,000 in taxable bonds to refinance the Series A Bonds; (iii) mortgage substantially all of its property under its First Mortgage Indenture; and (iv) utilize interest-rate hedges in the form of interest-rate locks or swaps, all in the manner described in the Petition and the findings above, will be consistent with the general

4. In the event of a rising interest rate environment prior to issuance, this instrument is used to hedge against potential increases in the U.S. Treasury rate portion of the coupon by locking the rate at the then-current Treasury rate index. Weber pf. at 21.

5. Functions similarly to the Treasury Rate Lock except that the hedge is based on expected changes in the U.S. LIBOR swap market vs. the applicable Treasury rate. *Id.*

6. The Board previously authorized the use of interest-rate locks by PSNH in Docket No. 7510, Order of 5/08/09 at 5, in connection with a \$150 million debt issuance.

good of the State. I therefore recommend that the Board approve the Petition and authorize the requested refinancing of long-term debt.

The parties have waived the opportunity for review of the Proposal for Decision, briefing, and oral argument, in accordance with 3 V.S.A. §811.

Dated at Montpelier, Vermont this 3rd day of February, 2011.

s/ Jay E. Dudley

Jay E. Dudley
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are accepted and adopted.

2. The Board consents to the request filed by the Public Service Company of New Hampshire ("PSNH") to: (i) issue long-term debt in an amount of up to \$119,800,000 if issued as tax-exempt debt, or \$123,000,000 if issued as taxable debt, for the purposes of refinancing the 1992 Series D and 1993 Series E Pollution Control Revenue Bonds, in one or more issuances through December 31, 2012; (ii) issue long-term debt in an amount of up to \$91,000,000 in taxable bonds to refinance the Series A Pollution Control Revenue Bonds; (iii) issue first mortgage bonds and mortgage substantially all of its property under its First Mortgage Indenture in connection with the requested refinancing; and (iv) utilize interest-rate hedges in the form of interest-rate locks or swaps in a notional amount not to exceed the total principal amount of the taxable bond issuances, all as set forth in the findings, above.

3. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that PSNH may implement with the proceeds from this issuance of long-term debt. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Board, from reviewing or challenging those expenditures and/or the resulting capital structure in any future proceeding.

4. PSNH shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.

5. Upon request, PSNH shall provide the Board and the DPS with a complete set of final executed documents.

Dated at Montpelier, Vermont this 3rd day of February, 2011.

<u>s/ James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/ David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/ John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: February 3, 2011

ATTEST: s/ Judith C. Whitney
Deputy Clerk of the Board

Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.